

Message Text

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AMEMBASSY HELSINKI

USMISSION OECD PARIS

AMEMBASSY PRAGE

AMEMBASSY SOFIA

AMEMBASSY WARSAW

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C O N F I D E N T I A L SECTION 1 OF 2 MOSCOW 3692

E.O. 11652 GDS

TAGS: ETRD, ENRG, EFIN, PFOR, UR, COMECON, EEC

SUBJECT: SOVIET PRESS ON NEW CEMA PRICES

REF: A. BUDAPEST 0528 B. BUCHAREST 09683 C. MOSCOW 2584

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1. SUMMARY: AN IMPORTANT ARTICLE IN MARCH 13 SOTSIALISTICHESKAYA
INDUSTRIYA ANNOUNCES SOME DETAILS OF RECENT CEMA FOREIGN TRADE
PRICE INCREASES, INCLUDING CEMA EXECUTIVE COUNCIL

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DECISION TO MAKE "CORRECTIONS" IN PRICES BEGINNING IN JANUARY 1975.

STRONGLY DEFENSIVE IN TONE, ARTICLE STRESSES THAT DECISION WAS COMPLETELY VOLUNTARY AGREEMENT MADE IN THEIR MUTUAL INTEREST BY ALL CEMA MEMBERS ACTING ON BASIS THEIR SOVERIGN RIGHTS, AND NOT A "DECISION HANDED DOWN FROM ABOVE BY SUPRA-NATIONAL BODY" AS IN COMMON MARKET. DECISION TO REVISE 1976-80 PRICES YEARLY IS DEFENDED ON BASIS THAT SEPARATION OF CEMA PRICES FROM "DYNAMIC WORLD MARKET" AND THEIR "ISOLATION FROM PRODUCTIVE FACTORS" SUCH AS GEOGRAPHIC DISTANCE AND ACCESSIBILITY OF RAW MATERIALS WOULD "HARM ECONOMY OF SOCIALIST COMMONWEALTH."

2. ARTICLE OMITS MENTION OF SUCH FACTORS AS SPECIAL FORMULA FOR 1975 PRICES AND POLISH INVESTMENT IN SOVIET PIPELINE CONSTRUCTION. IN EMBASSY'S VIEW NEW SYSTEM--WHICH INVOLVES TERMS OF TRADE FAVORING USSR, HIGHER PRICES FOR EE CONSUMERS, HIGHER SUBSIDY PAYMENTS BY EE GOVERNMENTS, AND CONTINUED LONG-TERM EE DEPENDENCE ON MOSCOW FOR ENERGY AND RAW MATERIALS--IS DEFINITE STEP FORWARD IN TIGHTER SOVIET CONTROL OVER THE CEMA COUNTRIES OF EASTERN EUROPE --AN IMPORTANT POLITICAL DIVIDEND FROM THE ENERGY CRISIS.
END SUMMARY

3. THE SOVIET PRESS HAS FINALLY PUBLISHED SOME DETAILS ABOUT INCREASE IN PRICES FOR OIL, RAW MATERIALS AND MANUFACTURED PRODUCTS IN CEMA TRADE. A LONG AND SLICKLY-WRITTEN ARTICLE PUBLISHED IN A RECENT ISSUE OF SOCIALIST INDUSTRY (SOTSIALISTICHESKAYA INDUSTRIYA) USES RATIONALIZATION, SOVIET JARGON AND SALESMANSHIP TO JUSTIFY WHAT IN ACTUALITY HAS BEEN SOVIET STRONG-ARM INSISTENCE THAT CEMA RULES BE CHANGED SO THAT PRICES FOR SOVIET OIL AND RAW MATERIALS SHIPPED TO EASTERN EUROPE CAN BE INCREASED ONE YEAR AHEAD OF SCHEDULE. ARTICLE IS IMPORTANT BOTH FOR WHAT IT SAYS AND DOES NOT SAY, AS WELL AS FOR ITS STRONGLY DEFENSIVE TONE AND FOR ITS INVOLVED CLAIMS OF COMPLETE, VOLUNTARY EAST EUROPEAN AGREEMENT.

4. MAJOR POINTS INCLUDE THE FOLLOWING:

A) INCREASED PRICES FOR 1975 - FOLLOWING DISCUSSIONS WHICH TOOK PLACE IN JANUARY 1975 MEETING OF CEMA EXECUTIVE COMMITTEE ON RAISING OF PRICES FOR 1976-80 PERIOD, AND AFTER RECENT "BILATERAL CONVERSATIONS," IT WAS DECIDED "EVEN IN 1975 TO CARRY OUT CORRECTIONS IN EXPORT AND IMPORT PRICES FOR DIFFERENT TYPES OF GOODS." LEVEL OF PRICES WAS RAISED FOR ENERGY AND CERTAIN TYPES OF RAW
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MATERIALS IMPORTED BY EE SOCIALIST COUNTRIES FROM USSR, ALSO FOR INDUSTRIAL AND AGRICULTURAL PRODUCTS EXPORTED BY EE SOCIALIST COUNTRIES, IN PARTICULAR TO USSR. THESE CORRECTIONS WERE AGREED UPON "IN ACCORDANCE WITH MUTUAL INTERESTS" OF COUNTRIES INVOLVED.

B) NEW PRICES LOWER THAN THOSE IN WORLD MARKET - TON OF SOVIET OIL DELIVERED AT HUNGARIAN BORDER NOW COST 37 RUBLES, LESS THAN ONE-HALF OF DOL 110 WHICH WOULD BE CHARGED IN CAPITALIST MARKETS.

DOLLAR PRICE FOR TON OF STEEL IS TWO AND ONE-HALF TIMES HIGHER IN WEST THAN RUBLE PRICE WITHIN CEMA. OTHER CONTRASTS CITED, ALL OF WHICH SHOW ADVANTAGES NOW ENJOYED BY CEMA AREA, SOMETHING WHICH IS BEING WIDELY REPORTED BY PRESS IN EE COUNTRIES.

C) NEW FORMULA FOR 1976-80 - AT JANUARY CEMA EXECUTIVE COMMITTEE MEETING RECOMMENDATIONS WERE MUTUALLY AGREED UPON TO ADOPT NEW FORMULA FOR FIXING OF RAW MATERIAL AND MANUFACTURED PRODUCT PRICES DURING 1976-80 PLAN PERIOD. PREVIOUSLY THESE PRICES WERE CHANGED EVERY FIVE YEARS, ON BASIS OF AVERAGE OF WORLD MARKET PRICES FOR PREVIOUS FIVE YEAR PERIOD. NOW, HOWEVER, "SEPARATION OF PRICES FROM THE CURRENT, DYNAMIC WORLD MARKET WOULD BE AN ANACHRONISM AND WOULD BE HARMFUL TO ECONOMY OF SOCIALIST COMMONWEALTH." FURTHERMORE, " ISOLATION OF RAW MATERIAL PRICE FORMATION FROM PRODUCTIVE FACTORS--SUCH AS GEOGRAPHICAL DISTANCES AND DEPTH OF DEPOSITS" --WOULD IMPEDE EXTRACTION OF RAW MATERIALS AND ALSO INTERFERE WITH CLOSER INTEGRATION OF SOCIALIST COUNTRIES. CONSEQUENTLY, PRICES WILL NOW BE RECALCULATED EACH YEAR, ON BASIS OF IMMEDIATELY PREVIOUS FIVE-YEAR AVERAGE FOR MAIN WORLD MARKETS. THIS WILL MEAN GRADUAL, SMOOTH RISE IN PRICES WITHIN CEMA, NOT SERIES OF SUDDEN JUMPS.

D) COMPLETELY VOLUNTARY DECISION BY ALL COUNTRIES CONCERNED - DECISION TO CORRECT PRICES TAKEN AT JANUARY MEETING OF CEMA EXECUTIVE COMMITTEE WAS TO "SOME KIND OF DECISION HANDED DOWN FROM ABOVE BY SUPRA-NATIONAL BODY, AS CONTINUALLY TAKES PLACE IN COMMON MARKET." ON CONTRARY, IT REPRESENTS CONSIDERATION BY GROUP OF SOVEREIGN GOVERNMENTS OF WELL GROUNDED RECOMMENDATIONS WHICH WERE DISCUSSED, "CORRECTED" AND FINALLY ACCEPTED BY THE GOVERNMENTS THEMSELVES. (THIS IS FOLLOWED BY PARAGRAPH EXTOLLING PRINCIPLES OF "PROLETARIAN INTEGRATION" WHICH INCLUDES SUCH ELEMENTS AS "MUTUAL ESTEEM FOR NATIONAL SOVEREIGNTY, IN PARTICULAR OVER A STATES'S NATURAL RESOURCES. . . DISINTERESTED, CONFIDENTIAL

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COMRADELY MUTUAL ASSISTANCE. . . AND STRICT ECONOMIC ACCOUNTING WHERE EQUITABLE CRITERIA ARE MUTUALLY ADVANTAGEOUS.") THIS CONTRASTS STARKLY WITH CONDITIONS IN WESTERN WORLD WHERE--AGAINST BACKGROUND OF WILD INFLATION--LARGE CAPITALIST COUNTRIES AND MULTINATIONAL MONOPOLIES EXPLOIT MARKET FLUCTUATIONS AND CONDITIONS FOR OWN SELFISH OBJECTIVES.

E) JUSTIFICATION OF EAST EUROPEAN INVESTMENT IN SIBERIAN DEVELOPMENT - FRATERNAL EAST EUROPEAN SOCIALIST COUNTRIES CORRECTLY UNDERSTAND

THAT CENTER OF SOVIET UNION'S OIL AND GAS INDUSTRY HAS SHIFTED FROM CASPAIN-VOLGA AREAS TO SIBERIA. DEVELOPMENT OF ENERGY AND RAW MATERIAL DEPOSITS THERE, WHICH INCLUDES COLONIZATION OF NEW REGIONS AND CONSTRUCTION OF INFRASTRUCTURE UNDER SEVERE CLIMATIC CONDITIONS, COSTS "ASTRONOMICAL SUMS." BY PAYING SOME OF EXPENSES

OF DEVELOPMENT NOW, EAST EUROPEAN COUNTRIES ASSURE THEMSELVES
OF SOURCES OF ENERGY AND RAW MATERIAL SUPPLIES IN FUTURE.

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F) EXPRESSIONS OF GRATITUDE AND RELIEF FROM EAST EUROPEAN
GOVERNMENT - THROUGHOUT THE ARTICLE THERE IS LEITMOTIF OF EAST
EUROPEAN GRATITUDE AND SATISFACTION--FOR LARGE QUANTITIES OF
SOVET OIL WHICH POLAND HAS RECEIVED AT LOW PRICES OVER PAST
SEVERAL YEARS; FOR QUANTUM JUMPS IN HUNGARIAN NATIONAL INCOME AND
INDUSTRIAL PRODUCTION WHOSE ACHIEVEMENT HAS BEEN AIDED BY STABLE
COOPERATION WITH SOCIALIST COUNTRIES AND ESPECIALLY USSR; FOR
CHEAP PRICES WHICH CZECHOSLOVAKIA NOW PAYS FOR OIL COMPARED WITH

WHAT IT WOULD PAY ON WESTERN MARKETS; AND EVEN FOR "REASONABLE PRICES" WHICH CUBA CHARGES ITS CEMA ALLIES FOR SUGAR, WHILE
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WESTERN COUNTRIES PAY AS MUCH AS DOLS 900 PER TON. THE--PERHAPS OBVIOUS-CONCLUSION IS THAT NEW, REVISED CEMA PRICING SYSTEM IS "POWERFUL BREAKWATER" PROTECTING CEMA COUNTRIES AND ENTIRE PROGRAM OF SOCIALIST ECONOMIC INTERGRATION FROM "UNJUSTIFIED EXTREME OF (ECONMIC) SITUATION" AND "THREATENING GALE THUNDERING OVER CAPITALIST ECONOMIES OF WORLD." END LIMITED OFFICIAL USE

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5. COMMENT: QUITE APART FROM NUMEROUS FACTUAL OMISSIONS, ARTICLE IS STRIKING FOR DEFENSIVE TONE AND FOR TENDENCY TO PROTEST TOO MUCH. AND--INEVITABLY--BECAUSE IT IS WRITTEN IN MOSCOW BY SOVIET PROPAGANDIST--IT ATTEMPS NO GENUINE ANALYSIS OF IMPACT OF THE PRICE ESCALATION ON COUNTRIES OF EASTERN EUROPE.

6. SOME OF FACTUAL GAPS ARE IMMEDIATELY APPARENT. THERE IS NO MENTION OF PRICE FORMULA FOR 1975 SOVIET OIL SALES WHICH, AS REPORTED IN HUNGARIAN PRESS AND AS EMBASSY HAS BEEN INFORMED BY SOVIET SOURCES, IS BASED ON NARROW THREE-YEAR AVERAGE--1972--74 --RESULTING IN HIGHER PRICE THAN IF FIVE-YEAR PERIOD 1970-74 HAD BEEN USED. THERE IS NO MENTION OF EXTRAORDINARY INVESTMENT WHICH POLAND HAS HAD TO MAKE TO GET ADDITIONAL QUANTITIES OF SOVIET OIL FOR ITS ECONOMY--BY AGREEING TO CONSTRUCT A PIPELINE IN SOVIET BALTIC STATES. NOR IS THERE ANY MENTION OF HEAVY-HANDED SOVIET PRESSURE WHICH MUST HAVE PREVAILED DURING "BILATERAL TALKS" ON RAISING OIL PRICES AS OF JANUARY 1975--AN OBVIOUS REFERENCE TO SERIES OF HASTY, SECRETATIVE EAST EUROPEAN VISITS MADE BY SOVIET GOSPLAN DIRECTOR BAYBAKOV AND OTHER SOVIET OFFICIALS DURING DECEMBER 1974.

7. MOST IMPORTANT OF ALL, HOWEVER, IS LONG-TERM IMPACT WHICH THIS NEW SYSTEM WILL HAVE ON COUNTRIES OF EASTERN EUROPE AND ON CEMA AS AN INTEGRATED ECONOMIC BLOC. IT CERTAINLY REPRESENTS NEW STEP FORWARD IN SOVIET CONTROL, LEADING INEVITABLY TO WEAKER EAST EUROPEAN ECONOMIES MORE DEPENDENT UPON SOVIET UNION FOR FUEL AND RAW MATERIALS. PRICE RISES THEMSELVES REPRESENT WORSENING OF TERMS OF TRADE FOR EE COUNTRIES, SINCE INCREASES FOR MANUFACTURED ITEMS ARE LESS THAN THOSE FOR OIL AND RAW MATERIALS. THE DIFFERENCE--THE EXTRA PAYMENTS WHICH EE COUNTRIES MUST MAKE FOR SOVIET OIL AND IRON ORE, NATURAL GAS AND CELLULOSE--MUST ULTIMATELY BE PAID EITHER BY EAST EUROPEAN CONSUMER IN HIGHER PRICES OR BY EE
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GOVERNMENTS IN LARGER SUBSIDIES. HENCE, THE ENERGY CRISIS HAS
GIVEN MOSCOW A VALUABLE POLITICAL DIVIDEND--TIGHTER CONTROL OVER
ITS WARSAW PACT ALLIES.
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